

The Two Main Types Of Life Insurance

When you start shopping for life insurance you will quickly discover that there are two main policy types. These are Universal, sometimes referred to as Whole or Permanent life insurance, and Term. There are some key differences between them, and each has pros and cons. Understanding these two policy types will make it easier to select the one that's right for you.

Universal Life Policies

These are also presented as whole or permanent life insurance policies. This type of life insurance covers you as long as you live, or until you hit a predetermined age-usually around 99 years-in which case the policy will pay out. In most cases, this policy will last until your death. This type of policy is more expensive because the company expects that they will definitely pay out on it at some point, since it does not expire. As long as you continue to pay your premiums, this policy remains in force no matter what happens regarding your health.

A Universal policy also has the feature of a cash accumulation account, which allows you to save money in a tax-deferred account on which you will earn interest. This account allows you to withdraw funds either as a loan or as a surrender. When the policy pays out, all funds in the accumulation account will be paid to the beneficiaries as well.

Term Life Policies

A term life policy mainly differs from a Universal policy in that it expires. This type of policy is in force for a set number of years, and then the coverage ends. Because the company has a lower risk of paying out on this type of policy, the premiums are generally more affordable, allowing you to take out a higher amount of coverage. Common terms for these policies are 10, 20, and 30 years, although different companies may offer numbers in between. The longer the term, the higher the premium is likely to be due to the higher risk of death occurring during that time period.

Term policies do not offer cash accumulation accounts. At the end of the term, the premiums you have paid do not come back to you in any way. If you want to take out a new term policy after the term ends, your age and any changes in your health may result in a higher premium or even a denial.

Both of these types of life insurance have their place and are useful in different situations. The best type of policy for you depends on how much coverage you need, how long you need the coverage, and what you can afford to pay for your premiums. In many cases, a combination of two policies, one from each type, offers the best coverage.